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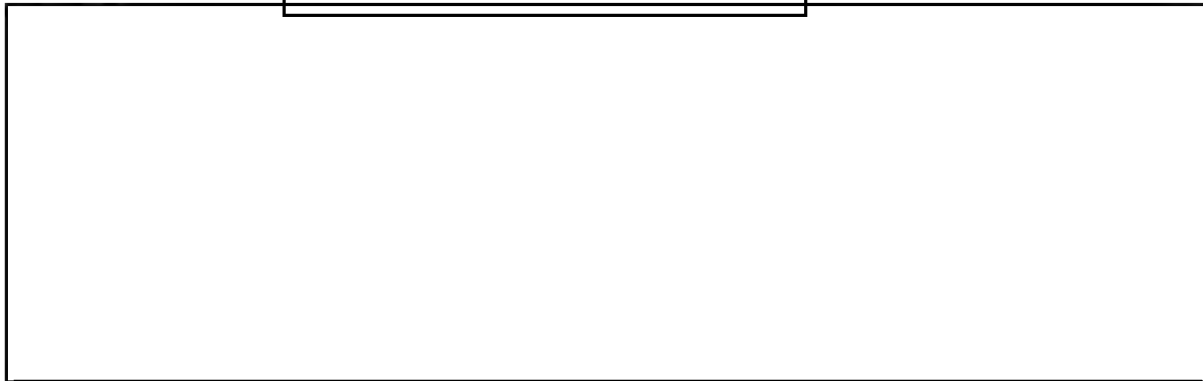
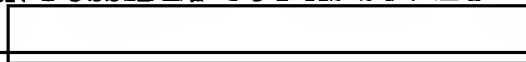
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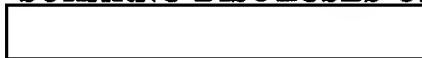
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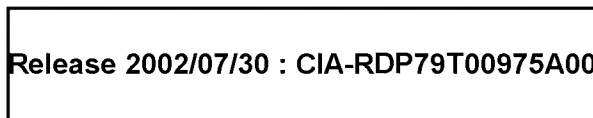
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1. SOVIET REPORT ON 1957 HALF-YEAR ECONOMIC ACHIEVEMENTS

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According to the Soviet mid-1957 plan fulfillment report, ex-planning chief Pervukhin's modest industrial production goal of 7.1 percent for 1957 is being overfulfilled. Total industrial production increased 10 percent in the first six months of this year over the same period of 1956, and correspondingly large increases were reported for producer goods (11 percent) and consumer goods (8 percent). Capital investment and housing construction were reported somewhat ahead of schedule.

If the rate of growth achieved thus far in 1957 were maintained for the rest of the five-year plan period, the original 1960 goal for a 65-percent increase in industrial production would nearly be reached. However, the general optimism of the report is probably not justified in view of continuing serious weaknesses in the basic materials industries. For example, steel output increased only 4 percent.

The addition of a large number of workers to the state labor force--2,100,000 over the June 1956 level--played an important role in the industrial achievement. This increase supports other indications that the USSR has accomplished a substantial proportion of its announced demobilization of 1,840,000 men from the armed forces.

Industrial labor productivity reportedly increased 6 percent compared to the 5.4 percent planned for the full year and to the 8.4 percent average annual increase necessary to meet the goals of the Sixth Five-Year Plan. While original sixth plan labor productivity goals thus appear to be wholly out of reach, demobilization is apparently permitting above-plan expansion of the industrial labor force which partially offsets labor productivity shortfalls.

In agriculture, very large increases were reported for socialized meat (30 percent) and milk (26 percent)

production over the same period last year. However, it is unlikely that total results for the entire year will be as good, because of the slower growth of private plot production and because of harvest prospects less favorable than last year.

Retail trade volume reportedly increased 16 percent, which is well ahead of plan and which probably reflects the need to absorb increased consumer purchasing power. The relatively slow growth of consumer industry production in the face of rapid growth of retail trade suggests that stocks and inventories are being reduced.

In an editorial on the plan results, Pravda ascribed the rapid growth rate of the first six months of 1957 to the benefits of the industrial reorganization; but it is doubtful that the reorganization had any significant positive or negative effect since the new administrative structure has only just begun to function. Pravda cited the economic successes through the simultaneous, rapid development of all sectors of the economy as evidence of the fallacy of the opposition of Malenkov, Molotov, and Kaganovich.

2. KUZMIN POSSIBLY OUT AS SOVIET ECONOMIC PLANNING CHIEF

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The American embassy in Moscow notes that Iosif I. Kuzmin has been identified for two consecutive days in both Pravda and Izvestia as "deputy chairman of the USSR Council of Ministers." As recently as 9 and 12 July he was referred to as "first deputy chairman of the Council of Ministers and chairman of the State Planning Commission (Gosplan)." The embassy concludes that Kuzmin has been demoted to deputy chairman of the Council of Ministers and is probably out as chairman of Gosplan, although there has been no announcement of his removal or of an appointment of his successor.

Comment

Kuzmin was not named to the party presidium, either as full or deputy candidate, after the June purge, but one of his first deputy chairmen, Aleksei N. Kosygin, was named candidate member of the party presidium and deputy premier. This anomaly--a deputy premier having more party rank than a first deputy premier--suggests that further changes are likely. Also, there are now only two first deputy premiers and one deputy premier, compared with the five first deputy and eight deputy premiers in late 1956.

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5. SUKARNO DISCLOSES CHINESE COMMUNIST ARMS OFFER

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President Sukarno, while touring Borneo in a campaign to restore the Djakarta government's prestige, disclosed on 19 July that when he was in Peiping last October Mao Tse-tung had made him an informal offer of military equipment. According to Sukarno, Mao stated during a military parade, "Just inform me if you need such materials." This apparently off-hand statement probably reflects Mao's willingness to consider favorably any Indonesian application for military equipment.

An Indonesian military mission which spent six weeks in China in May and June 1957 reportedly was told that China would accept Indonesian cadets for military training. No Indonesian overtures to Peiping to take advantage of these offers have been reported.

Indonesia is negotiating the purchase of substantial quantities of military equipment from the United States. There are also indications that individual Indonesian air force officials have held exploratory talks with the Soviet embassy in Djakarta regarding the possibility of obtaining Soviet jets.

Sukarno has made no apparent attempt to obstruct efforts to obtain US equipment. On the other hand, he probably would not be averse to promoting closer relations with Communist China and accepting military equipment from it if Indonesia's needs are not met by the United States.

Peiping could easily supply from its own factories small arms and ammunition. In addition, the Chinese

probably produce light artillery, recently began production of trucks, and might offer limited quantities of such equipment for prestige reasons. Peiping could also transship heavier equipment obtained from the USSR.

Any transfer of arms to Indonesia would be the first instance of Chinese Communist military shipments to a non-Communist government in Southeast Asia.

6. MOROCCANS SEEK TO ENLARGE SCOPE OF BASE NEGOTIATIONS WITH UNITED STATES

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[REDACTED] When American-Moroccan base negotiations resumed on 17 July after a seven-week recess, Moroccan negotiators made clear that they intended to enlarge the scope of the discussions and to seek a quid pro quo in the form of military and economic aid in return for an agreement.

The Moroccans hinted that a base agreement should take into consideration the possible creation of a regional pact or Moroccan membership in NATO. They indicated they would ask for American military assistance to equip and train an enlarged Moroccan army.

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Rabat may wish budgetary support amounting to about \$60,000,000, or more if the French continue to delay granting financial support. It may also seek larger grants of American commodities and loans from the Export-Import Bank to finance Moroccan economic development.

Comment

Although the Moroccan government had pressed for some time for the opening of base negotiations, which began in mid-May, it has not yet presented any specific proposals for American consideration. Indications are that negotiations will be protracted and difficult. The Sultan is scheduled to visit Washington from 25 through 27 November.